



August 27, 2013

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Report of Selected Money Market Rates – FR 2420

Dear Mr. Frierson:

The Clearing House Association L.L.C. (“The Clearing House”)¹, the Institute of International Bankers (“IIB”)², The Financial Services Roundtable (“FSR”)³ and the American Bankers Association (“ABA”)⁴ (together, the “Associations”), appreciate the opportunity to comment on the *Report of Selected Money Market Rates* (the “Proposal” or the “FR 2420 Report”) proposed by the Board of Governors of the Federal Reserve System (the “Board”). We also appreciate the Board providing the draft *Instructions for Preparation of the Report of Selected Money Market Rates* (the “Draft FR 2420 Instructions”) and draft

¹ Established in 1853, The Clearing House is the oldest banking association and payments company in the U.S. It is owned by the world’s largest commercial banks, which collectively employ over 2 million people and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing—through regulatory comment letters, amicus briefs and white papers—the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S. See The Clearing House’s web page at www.theclearinghouse.org.

² The Institute of International Bankers (IIB) is the only national association devoted exclusively to representing and advancing the interests of the international banking community in the United States. Its membership is comprised of internationally headquartered banking and financial institutions from over 35 countries around the world doing business in the United States. The IIB’s mission is to help resolve the many special legislative, regulatory, tax and compliance issues confronting internationally headquartered institutions that engage in banking, securities and other financial activities in the United States. Through its advocacy efforts the IIB seeks results that are consistent with the U.S. policy of national treatment and appropriately limit the extraterritorial application of U.S. laws to the global operations of its member institutions.

³ The Financial Services Roundtable represents 100 integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America’s economic engine, accounting directly for \$98.4 trillion in managed assets, \$1.1 trillion in revenue, and 2.4 million jobs.

⁴ The American Bankers Association represents banks of all sizes and charters and is the voice for the nation’s \$14 trillion banking industry and its 2 million employees.

reporting form (the “Draft FR 2420 Form”)⁵. While the Associations support the efforts of the Board to improve its understanding of market activity in selected money market instruments while striking an appropriate balance between the Board’s need for data and the need for such data requests to be practical, logical and administratively manageable for both the Board and the members of the banking industry that have to provide the requested data, we have several concerns with the Proposal. We would welcome the opportunity to discuss the Proposal further with the Board so that we can understand more specifically the Board’s objectives and make additional recommendations with respect to the data to be reported under the Proposal to most effectively and efficiently achieve those objectives.

Our specific recommendations are set forth below.

A. The Reporting Deadline for Submission of the FR 2420 Report Should Occur on a Two-Day Lag Basis, Should Leverage the Liquidity 4G Monitoring Tool Currently Applicable to Certain Banks, and Reporting under the Proposal Should be Limited to Banks Required to Complete the Liquidity 4G Monitoring Tool.

The Proposal requires that all participating banks submit the FR 2420 Report by 7:00 am (ET) each business day, regardless of where the institution is headquartered. Further, our interpretation of the Proposal is that it would require consolidation of all transaction level data for each product from all branches, U.S. and foreign, into one report by the 7:00 am (ET) deadline. Although we believe that the Board envisions a “straight through” reporting process, the timing and nature of the FR 2420 Report do not allow sufficient time for the data to be properly consolidated, reconciled, and verified for reasonableness in order to avoid the potential reporting of inaccurate or incomplete data (subject to potential multiple resubmissions), particularly when taking into account that much of the data will be consolidated from branches around the world. While we understand that the Proposal is not a supervisory initiative, there are potential supervisory implications as well as internal control, audit and governance concerns for banks regarding submission of data that may not be subject to proper regulatory reporting controls, level of review, documentation and sign-off procedures otherwise required for other information furnished to the Board.

Banks currently do not have reporting systems capable of aggregating product level transaction data into one report for a daily submission by 7:00 am (ET). Submitting the required data daily at the proposed 7:00 am (ET) time would require the development of a completely new data collection process to capture the required data at the time of trade entry, rather than relying on overnight “batch” processes, which today are not always completed by 7:00 am (ET). Typically, reconciliation and verification of trades executed during a business day are performed the following business day once all activity is processed as a batch and is posted in both the trading and accounting systems. The batch processing occurs after the close of business and throughout the night, and even into the

⁵ The Draft FR 2420 Instructions and Draft FR 2420 Form were published on May 24, 2013, and can be found at <http://www.federalreserve.gov/apps/reportforms/review.aspx>.

late morning hours the following day, and is dependent on the volume of activity included in the batch process, when applications are closed, and how IT resources are allocated overall by the financial institution to accomplish the myriad of financial and regulatory reporting requirements. Further, some institutions outsource their overnight processing functions to third-party processors. If a problem occurs, these institutions may not be aware of the problem until, at the earliest, the following business day, and would not be able to address the issue until the third-party vendor or designated help desk became available.

While the Board appears to envision a “straight-through” approach pursuant to which transaction data would be submitted and consolidated directly from internal systems at financial institutions without manual intervention, there is only one other instance of such an approach of which we are aware: the reporting of swaps as mandated by Title VII of the Dodd-Frank Act⁶ (17 CFR Part 43 Real-Time Public Reporting of Swap Transaction Data) (“Swap Transaction Reporting”). It is important to note, however, that the set of products subject to Swap Transaction Reporting includes swaps only and not any of the products or transactions requested by the Proposal. In addition, Swaps Transaction Reporting occurs at the level of a registered swap entity subsidiary. While many of the firms that could be subject to the Proposal also have registered one or more swap entities, the required reporting for those registered entities often does not include the bank holding company. Therefore, existing systems and protocols that have been designed to do Swap Transaction Reporting are likely not easily extendable to include reporting required by the Proposal.

Further, we would encourage the Board to consider the capital investment and lengthy compliance period required to develop such a real-time reporting infrastructure for the proposed FR 2420 Report. The compliance date of Swap Transaction Reporting provided market participants with more than one year to prepare (from the time of the publication of the proposed version of the Swap Transaction Reporting rules) to be compliant. Market participants made significant capital investments in developing their internal systems and, in a number of cases, regulators recognized the complexity involved and granted additional time to comply in the form of no-action relief. We believe that the Board should consider that producing the FR 2420 Report as required by the Proposal would not simply be an extension of existing processes, but rather require an entirely new build on a scale similar to what was required for Swap Transaction Reporting.

In addition, the Proposal contemplates that the FR 2420 Report for each institution would be submitted through Reporting Central. Unfortunately, Reporting Central does not currently include an automated method for gathering reportable transactions, which will require banks to perform additional technology and systems steps to convert data to Reporting Central’s format, or rely on third-party vendors to develop an automated solution. This is one of several areas for which we believe that a series of meetings between reporting entities and the Board would be very helpful for the development of an effective reporting process. These discussions would also provide a forum to further determine required data elements, formatting, etc. for banks to consider the scope of necessary changes to existing reporting systems.

⁶ *The Dodd-Frank Wall Street Reform and Consumer Protection Act: Title VII, Derivatives* (“Dodd-Frank”).

Moreover, there are other reports, such as the Liquidity 4G Monitoring Tool template (the “4G Monitoring Tool”), that require daily submissions of similar data by certain large banks, but such submissions are made on a two-day lag. This delayed reporting allows reporting banks to ensure the accuracy of the data submitted. Since the 4G Monitoring Tool already collects (from certain large banks) the ‘amount’ and ‘maturity’ information related to federal funds and Eurodollars (line item 8.30) and Wholesale CDs (line item 8.70), we strongly recommend that the Board leverage its 4G Monitoring Tool with some slight enhancements to achieve its objectives of receiving timely market monitoring data for federal funds, Eurodollar and CD activities, rather than requiring reporting entities to develop an entirely new reporting system to capture essentially the same information. We respectfully submit that using the 4G Monitoring Tool for daily submissions with its current two-day lag submission timing, and adding a requirement to include “rate” information, strikes the appropriate balance.

Further, we believe that the entities currently subject to the 4G Monitoring Tool “provide sufficient coverage to have a statistically representative sample” as required by the Proposal. Such a balancing by the Board also would allow submissions to be made via FRSecure rather than Reporting Central. Given the frequency and the proposed timing of the submissions required by the Proposal, FRSecure would provide greater flexibility for the reporting institutions in the event of unforeseen circumstances (e.g., personnel changes, weather delays, hardware failure). Given the current shortcomings of Reporting Central, particularly the lack of an automated method for gathering reportable transactions, we believe FRSecure is a more viable and mutually beneficial alternative.

B. The Proposed “Transition Period” does not Allow the Appropriate Amount of Time to Comply with the Proposal, and Should be Modified as Described Below. In Addition, the Effective Date of the Proposal also should be Extended.

We appreciate that the Board has incorporated a transition period to provide banks with time needed to comply with the Proposal’s 7:00 am (ET) daily reporting deadline. Without regard to whether the Board accepts our recommendation above to leverage the existing 4G Monitoring Tool reporting process with a few enhancements, however, the suggested “short” transition period with respect to the effective date of the Proposal is insufficient to allow banks adequate time to develop the programming changes necessary to gather and report the required data. We suggest two alternatives below that we believe effectively balance the Board’s need to receive the data while allowing banks sufficient time to plan, test and implement the required systems and reporting changes. We also include herein requests for clarifications and modifications to the data requested by the Proposal.

Alternative 1: “Time to Market”

We strongly suggest that the “time to market” be extended beyond the implicit October 1, 2013, start date for collection of data currently suggested by the Proposal, which is less than 60 days

after the expiration of the comment period for the Proposal. Enhancing the “short” transition period beyond what is described in the Proposal will allow institutions additional time to develop the proper systems, collection mechanisms, controls and procedures required to report the FR 2420 data, while allowing the Board more time to evaluate whether the current Proposal achieves its objectives as well as whether refinements to the data collection are required to ensure that the Board is receiving proper data.

Our first suggested alternative approach to enhance the transition period (“Alternative 1”) would require banks to collect and submit the data required by the Proposal (subject to the clarifications and threshold modifications requested herein) every Friday (beginning with October 8, 2013), but would report on the prior week’s activity on a day-by-day basis. During this Alternative 1 transition period, we suggest that the data collected be consolidated and reviewed by the Board on an ongoing basis through January 3, 2014 (in order to capture the week ending December 27, 2013) and that the Board then use the first 45 days of 2014 to analyze and study the complete 3-month data set submitted, while banks perform their other year-end reporting requirements. After year-end reporting is complete, perhaps in mid-February, we would be pleased to meet with the Board and learn from the Board’s perspective which data collected was useful or not useful and which data items may need to be added to refine the data analytics for the Board’s desired daily monitoring and decision-making purposes. In addition, we would be able to constructively share with the Board our experience in producing the data required by the Proposal (as modified by our recommendations) that would provide a solid understanding to all parties on how this data could be produced more efficiently on a go-forward basis. We could then discuss with the Board perhaps another three-month “trial” reporting period with revised data elements to ensure that the data being produced was responsive. Once this process was complete, a final FR 2420 Report would ‘go live’ that all parties would be assured can be submitted timely and is effective and useful.

Alternative 2: “Temporary Modification of Data Requirement”

A second alternative approach to the Proposal’s transition period (“Alternative 2”) would be to phase-in and modify (as described below) the data required to be reported under the Proposal, starting with the initial quarter that the Proposal is effective and for succeeding quarters to allow banks more time to make required changes to systems and reporting processes. For example, under this Alternative 2, assuming a 4Q13 effective date, 4Q13 data would be reported on a two-day lag basis at 10:00 am (ET) daily as required under the Proposal, but only data on federal funds transactions would be reported.⁷ The following month, e.g., January 2014, the FR 2420 Report deadline would advance an hour as stated in the Proposal (i.e., to 9:00 am

⁷ While the Draft FR 2420 Form requests that the federal funds data be reported in millions of dollars, the Proposal does not contain a threshold for the size of reportable transactions. We would like to discuss with the Board the appropriate threshold for reporting of such transactions.

(ET)), and all reporting banks would be required to report CD data⁸ as well as federal funds data on a two-day lag basis. Finally, Eurodollar data⁹ as well as federal funds and CD data, would be reported in the third month, e.g., February 2014 on a two-day lag basis.

In addition to our recommendations on the transition period described above, we also recommend that the Board consider delaying the effective date of the Proposal. The Proposal does not set a specific date when the reporting would commence, but rather suggests that a short transition period would begin in the fourth quarter of 2013. We request that the Proposal be finalized before the affected banks are required to commit significant internal technology and operational resources to develop the proper systems and collection mechanisms required to ensure accurate reporting. While we appreciate the Draft FR 2420 Form provided by the Board, it is imperative to know the technical specifications, and therefore the final Form 2420 Report requirements, well in advance of the effective date. Additionally, if the Board intends to require that the FR 2420 Report be submitted through Reporting Central, it is unclear when testing in Reporting Central will be available. Testing in Reporting Central is critical so that banks can resolve any issues with the technical aspects of reporting, and determine the extent of manual intervention, before reporting becomes effective. For these reasons, we respectfully request that the effective date of the Proposal be delayed until 180 days following the publication of the final rule in the Federal Register and all technical specifications and formatting components have been finalized.

C. Several Aspects of the Proposal Require Further Clarification.

1. CDs.

- a. The definition of CDs in the Proposal suggests that all retail and wholesale CDs, including both negotiable and nonnegotiable instruments, are required to be reported. Current bank reporting processes do not collect all of this data, in particular transaction level retail CD data. Providing this data will require additional time and analysis to ensure the correct instruments are reported. We recommend instead narrowing the scope of reportable CDs under the Proposal to include only those that are DTC-eligible. This more tailored definition will provide a “bright-line” distinction to clarify which instruments must be reported under the Proposal while maintaining the integrity of the data requested by the Board. We also request that the Proposal focus on negotiable

⁸ We request clarifications and modifications to the CD data required to be reported under the Proposal in section C, *infra*.

⁹ We request that the requirement to report Eurodollar transactions be limited to non-U.S. offices whose total assets exceed \$10 billion, rather than the \$2 billion reporting threshold included in the Proposal. The threshold for reportable Eurodollar transactions would then be reduced to \$5 billion for March 2014, and remain at \$2 billion thereafter, so that by the second quarter of 2014 the transition phase would be completed.

wholesale CDs only, since retail issuances are much less likely to immediately reflect changes in market pricing.

- b. The Proposal states that reportable CD transactions include all “CDs that have a term of seven days or more that are booked in U.S. offices in U.S. dollars and denominated in amounts of \$250 thousand or more.” We request that this threshold be raised to \$1 million as it would greatly increase the accuracy of the data reported by excluding smaller transactions while allowing the Board to monitor current money market conditions.
- c. Regarding floating CD rates, the Proposal asks for additional data fields that would be necessary to understand the interest-rate structure over the life of the instrument. While this may be achievable for some instruments, there are a number of market-linked CDs that use derivative transactions as hedges, and for which the actual embedded floating rate may not be easily obtained, that could require significant changes to systems and the reporting process in order to capture such information correctly. Since these constitute a small percentage of the CDs to be reported under the Proposal, we request that the final rule exclude market-linked CDs from the Proposal.
- d. Finally, many brokered CD arrangements place the vast majority of such instruments with retail customers, though a small portion may be issued to institutional investors. However, due to the structure of such programs, the issuing bank generally cannot identify the ultimate owner of the account. In order to provide timely data to the Board, banks may need to revise existing agreements and/or systems with partner brokers. Excluding brokered CD programs that primarily issue such instruments to retail customers from the Proposal would help facilitate timely submission of meaningful data to the Board. Alternatively, the Proposal should be clarified to make clear that brokered CDs should be reported on the appropriate balance per broker.

2. Eurodollars.

It is not clear under the Proposal if reportable Eurodollar transactions should include intercompany transactions, or only third-party assets. We recommend that the Proposal exclude intercompany transactions as they are merely a tool to manage liquidity between branches and do not represent or affect market conditions.

3. Newly acquired businesses.

The Proposal is not clear as to how an institution incorporates a new (possibly historically non-FR 2420 Report) filer into the Proposal’s reporting requirements. We request that the final rule include a 12-month transition period for all newly acquired lines of business before such new acquisitions are required to be included in the FR 2420 Report.

4. Additional clarifications.

There are a number of other specific areas for which additional clarification would be appreciated in order to permit reporting entities to provide accurate and meaningful data submissions under the Proposal. These additional requests for clarification may be found in the Appendix to this letter.

We greatly appreciate your consideration of our comments and would welcome the opportunity to discuss them further with you at your convenience. If we can facilitate arranging those discussions, or if you have any question or are in need of any further information, please contact David Wagner at 212.613.9883 (email: david.wagner@theclearinghouse.org), Richard Coffman at 646.213.1149 (email: rcoffman@iib.org), Richard Foster at 202.589.2424 (email: richard.foster@fsround.org), or Alison Touhey at 201.663.5182 (email: atouhey@aba.com).

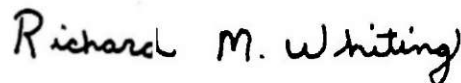
Respectfully submitted,



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A handwritten signature in dark ink, appearing to read "Alison T.", with a long horizontal stroke extending to the right.

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cc: Cynthia Ayouch
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Appendix – Additional Requests for Clarification

1. The Proposal excludes “affiliates and related party transactions” in part A (federal funds), but only “related party transactions” in part B (Eurodollars). The final rule should make these exclusions consistent.
2. What constitutes a significant error in the “Amended Reports” section of the Draft FR 2420 Instructions?
3. In the event of a “significant error” what would be the process of resubmission? When would banks be notified, and when would a resubmission of the FR 2420 Report be due?
4. The Draft FR 2420 Instructions fail to state whether forward-dated CDs should be excluded from the FR 2420 Report.
5. The Draft FR 2420 Instructions state in relevant part: “The rate should always be expressed in terms of 5 decimal places.” The Draft FR 2420 Instructions should be clarified to make clear that this language means five decimal places to the right of the decimal point. Additionally, is 1.45% shown as a decimal 0.01450, or 1.45000?
6. The Draft FR 2420 Instructions ask reporters to include “federal funds purchased by domestic offices of reporting institutions,” and CDs “booked in U.S. offices.” Do “domestic offices” and “U.S. offices” exclude the International Banking Facilities (“IBFs”) of U.S. branches of foreign banks?
7. Is a renewal of an existing CD a reportable transaction in the FR 2420 Report? If so, at what point are they reportable (e.g. at auto-renew or at expiration of the grace period)?
8. For variable rate CDs in general, are they to be reported only at inception, or at every change in rate?